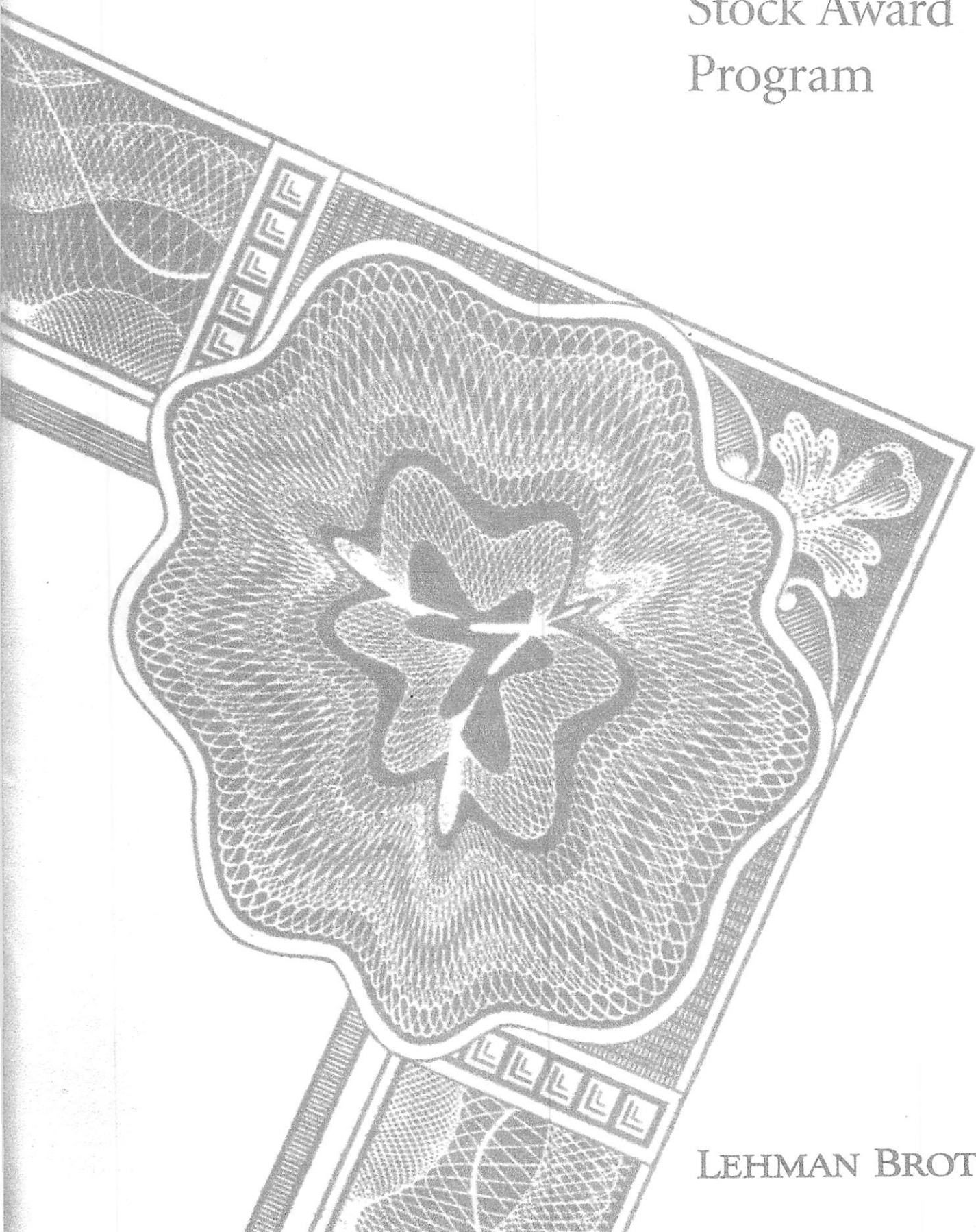


2001

Lehman Brothers  
Stock Award  
Program



LEHMAN BROTHERS

# 2001 Lehman Brothers Stock Award Program

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*This brochure describes significant features of the Lehman Brothers Stock Award Program for 2001. It is not intended to replace the award agreement or other official plan documents. This brochure should be read in conjunction with the other documents enclosed.*

*The enclosed Personal*

*Award Statement details*

*your 2001 award.*

### 2001 Stock Award Program at a Glance

- ◆ All eligible members of the Firm receive a portion of their compensation in restricted stock units (RSUs). Each RSU represents the right to receive one share of Lehman Brothers common stock five years after the RSU is granted.
- ◆ RSUs have been awarded to you as part of your 2001 compensation payable for the year's performance. The amount of compensation paid in RSUs increases as the amount of your total compensation rises.
- ◆ In 2001, a portion of your stock award was priced in September and the balance of your stock award was priced in December. Generally, the Firm's stock award is made only at one time in the year, at year end.
- ◆ A portion of your RSU award was priced at \$34.98, based on the closing price of Lehman Brothers common stock on September 20, 2001 (\$46.64), less a 25 percent discount. The balance of your 2001 RSUs was priced at \$47.55, based on the closing price of Lehman Brothers common stock on December 3, 2001 (\$63.40), discounted by 25 percent.
- ◆ On November 30, 2006, the restriction period will end, and you will be entitled to receive one share of Lehman Brothers common stock for each vested RSU you hold. Once your RSUs convert to common stock, they become freely tradable. The RSUs cannot be sold, transferred or pledged before conversion.

## How the Stock Award Program Works

The Stock Award Program provides every member of Lehman Brothers with a direct ownership interest in the Firm, and requires us to hold that stake for at least five years. In doing so, the Program gives each of us an incentive to think and act like an owner every day, and allows us to share in the Firm's financial success over time.

Your 2001 restricted stock units (RSUs) were awarded to you as a portion of your 2001 compensation. Each RSU represents the right to receive one share of Lehman Brothers common stock five years after the grant date, on November 30, 2006. You can consider the RSUs as shares of Lehman Brothers common stock that the Firm holds on your behalf for five years. The RSUs cannot be sold, traded, pledged, or assigned for that five-year period.

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*The Program gives each  
of us an incentive to think  
and act like an owner  
every day.*

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## The Size of Your Award

The enclosed Personal Award Statement shows your 2001 award. The amount of each individual's award is determined according to a schedule that specifies the awards granted at each level of compensation. Under this schedule, the amount of compensation paid in the form of RSUs increases as total compensation rises. Thus, more highly compensated members of the Firm have a greater percentage of their compensation paid in RSUs.

For 2001, your RSU award was determined in two stages: in September and at year end. Your full 2001 stock award was determined at year end based on your actual compensation for 2001 and the stock award schedule shown on page 7. (The stock award made in September was a special feature for 2001. Generally, the Firm's stock award is granted only at one time in the year, at year end.)

The number of RSUs you received for 2001 was based on the price of Lehman Brothers common stock, less a 25 percent discount. A portion of your 2001 RSU award was priced at \$34.98, based on the closing price of Lehman Brothers common stock on September 20, 2001 (\$46.64), discounted by 25 percent. The balance of your 2001 RSUs was priced at \$47.55, based on the closing price of Lehman Brothers common stock on December 3, 2001 (\$63.40), discounted by 25 percent.

## Salaried Members of the Firm

**September RSUs:** Your September RSUs were calculated based on your 2000 total compensation and the stock award schedule shown on page 7, multiplied by 50 percent. Total compensation for 2000 includes salary earned in fiscal year 2000 plus any additional compensation for your performance in 2000. Such compensation includes 2000 bonus, commissions and other compensation.

If you were hired by the Firm in 2000 or 2001 (but prior to September 20, 2001), your September award was calculated as follows:

- ◆ If you joined the Firm in 2000, your September award was calculated based on your annualized 2000 salary, additional compensation for 2000 and the higher of your 2000 paid bonus or guaranteed 2001 bonus (for employees with written bonus guarantees).
- ◆ If you joined the Firm in 2001, your September award was calculated based on the projected salary you would have earned for 2001, additional compensation for 2001 and your guaranteed 2001 bonus (if applicable).

**December RSUs:** Your December RSUs were calculated based on your 2001 total compensation and the 2001 stock award schedule shown on page 7, reduced by the stock award you received in September. Total compensation includes salary earned in fiscal year 2001 plus any additional compensation for your performance in 2001, even if some of these payments are deferred or paid in 2002. Such compensation includes 2001 bonus, commissions and other compensation.

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If the value of your September RSUs equaled or exceeded your full-year 2001 stock award level, no additional RSUs were awarded in December.

*Investment Representatives (IRs)*

**September RSUs:** Your September RSUs were calculated based on annualized 2001 payout, after all adjustments, for production months December 2000 through August 2001 (paid from January through September 2001), and the stock award schedule shown on page 7, multiplied by 50 percent. The 2001 payout may have included regular grid production payout, certain special payments and other production payout. However, the September award could not exceed your actual accrual from January through September.

**December RSUs:** Your December RSUs were calculated based on your actual payout, after all adjustments, for production months December 2000 through November 2001 (paid from January through December 2001) and the 2001 IR stock award schedule on page 9, reduced by the stock award you received in September.

During any period an IR is paid a draw, RSUs are awarded with respect to the amount of the draw. If the draw ends and the IR has production payout in excess of the draw, the excess ("overage") is paid partly in cash and partly in RSUs (in the year in which the overage is paid). Note that for purposes of this brochure, all references to payout or compensation assume compensation payments that are RSU eligible only.

Note that beginning with production month December 2001 (paid in January 2002), your stock award accrual will be determined under the 2002 IR stock award schedule on page 9.

### *The Firm-Provided Discount*

The number of RSUs you received for 2001 was based on the closing price of Lehman Brothers common stock (\$46.64 per share for September RSUs and \$63.40 per share for December RSUs), less a 25 percent discount provided by the Firm. With a 25 percent discount, every \$100 of compensation in RSUs gives you \$133 in value. A 25 percent discount really means that the Firm "grosses up" your contribution 33 percent at the outset.

### *Vesting and Conversion*

For purposes of discussing the vesting provisions, you should consider your RSU award as having two components: the **principal portion** and the **discount portion**. The principal portion represents the number of RSUs awarded as part of your 2001 compensation before the discount (75 percent of the award). The discount portion represents 25 percent of your total 2001 RSU award.

Provided you remain employed by the Firm, your 2001 RSUs will vest in two stages:

- ◆ The principal portion, 75 percent of your award, will vest two years after the award date, on November 30, 2003.
- ◆ The discount portion, 25 percent of your award, will vest five years after the award date, on November 30, 2006.
- ◆ Notwithstanding the above, in the event your employment is terminated with cause or you engage in Detrimental Activity prior to November 30, 2006, all of your RSUs will be forfeited. Please refer to page 15 for the definition of Detrimental Activity.
- ◆ Your 2001 RSUs will convert to Lehman Brothers common stock five years after the award date, on November 30, 2006.

Refer to the section *If Your Employment Ends*, on page 12, for a detailed explanation of how your RSUs may be affected if you leave Lehman Brothers, including the circumstances under which you may forfeit your right to your RSUs.

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*All vested 2001 RSUs  
will convert to Lehman  
Brothers common stock  
on November 30, 2006.*

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*Dividend equivalents  
will be reinvested as  
additional RSUs.*

### *Dividend Reinvestment*

Dividends may be declared from time to time at the discretion of the Board of Directors. Until your RSUs convert to common stock, if dividends are declared, you will receive dividend equivalents. Your dividend equivalents will be automatically reinvested as additional RSUs. (The stock price used for your dividend reinvestment will be the closing price on each dividend payment date.)

The RSUs you receive as dividend equivalents will vest and convert to Lehman Brothers common stock on the same date as the underlying RSUs to which they relate. In the event the underlying RSUs are forfeited, the related dividend reinvested RSUs will also be forfeited.

**For example:** For an award of 124 RSUs, based on the current annual dividend rate of \$0.36 per share, the dollar value of dividend equivalents would be \$44.64 annually. In this example, assume the market price of Lehman Brothers stock on each dividend payment date is \$60.00 per share.

	Number of RSUs		Dividend Rate	Dividend Equivalents	Stock Price	Additional RSUs Through Dividend Reinvestment	Scheduled Vesting Date
Principal portion (75%)	93	x	\$0.36/share =	\$33.48 ÷	\$60 =	0.56	November 30, 2003
Discount portion (25%)	31	x	\$0.36/share =	\$11.16 ÷	\$60 =	0.19	November 30, 2006
	124	x	\$0.36/share =	\$44.64 ÷	\$60 =	0.75	

Using this example, if you should terminate your employment and forfeit the portion of your RSU award related to the 25 percent discount (31 RSUs), you would also forfeit 0.19 RSUs (the related dividend reinvestment).

### **Voting Rights**

Lehman Brothers established a Trust and funded it with shares for your benefit to provide you with voting rights related to your RSU awards. You will be able to direct the voting related to shares held in the Trust in proportion to the number of RSUs you hold. You will continue to have these voting rights as long as you remain employed with the Firm.

## 2001 Stock Award Schedule

The participation schedule for 2001 is listed below. This schedule reflects the portion of 2001 compensation paid through the Stock Award Program. The size of the stock award made in September 2001 is generally half of your 2000 stock award. To calculate the September stock award, apply the 2000 total compensation against the schedule below and multiply the result by 50 percent.

<i>Total Compensation Range</i>	<i>Portion of 2001 Compensation Paid Through Stock Award Program</i>
\$0 – \$99,999	2% of 2001 total compensation
\$100,000 – \$199,999	\$2,000 plus 6% of 2001 total compensation over \$100,000
\$200,000 – \$299,999	\$8,000 plus 10% of 2001 total compensation over \$200,000
\$300,000 – \$499,999	\$30,000 plus 16.25% of 2001 total compensation over \$300,000
\$500,000 – \$749,999	\$62,500 plus 20% of 2001 total compensation over \$500,000
\$750,000 – \$999,999	\$112,500 plus 35% of 2001 total compensation over \$750,000
\$1,000,000 – \$1,499,999	\$200,000 plus 35% of 2001 total compensation over \$1,000,000
\$1,500,000 – \$1,999,999	\$375,000 plus 45% of 2001 total compensation over \$1,500,000

*The amount of compensation paid in RSUs increases as the amount of your total compensation rises.*



## Salaried Members of the Firm: Calculating Your 2001 Stock Award

Step	Instructions	Sample Calculation	Sample Result
Step 1	Your full 2001 RSU award was determined at year end based on your actual compensation for 2001. The portion of your award that was priced in September was based on your 2000 total compensation. As an example, we'll go through the calculations for a participant whose 2000 and 2001 total compensation was \$150,000.	Not applicable	\$150,000
Step 2	To determine the portion of the 2001 award priced in September, we use 2000 total compensation and the award schedule on page 7, multiplied by 50%. According to the award schedule, an employee whose 2000 total compensation is between \$100,000 and \$199,999 should have \$2,000 plus 6% of his 2000 total compensation over \$100,000 in RSUs. Multiply this amount by 50% and the result – \$2,500 – represents this employee's September RSUs.	$[\$2,000 + (6\% \times \$50,000)] \times 50\%$	\$2,500
Step 3	The next step is to figure out how many RSUs were awarded in December.* Based on the schedule on page 7, the full-year stock award for this employee with 2001 total compensation between \$100,000 and \$199,999 is \$2,000 plus 6% of 2001 total compensation over \$100,000, or \$5,000. This amount, less the September RSU amount calculated in step 2, gives us the December RSU amount.	$[\$2,000 + (6\% \times \$50,000)] - \$2,500$	\$2,500
Step 4	The next step is to figure out how many RSUs were awarded to this employee in 2001. To calculate the portion of RSUs awarded in September, divide the result from step 2 by \$34.98 (which represents the \$46.64 price of Lehman Brothers stock on September 20, 2001, less the Firm-provided 25% discount). To calculate the number of units received in December, divide the result from step 3 by \$47.55 (which represents the \$63.40 price of Lehman Brothers stock at year end, less the Firm-provided 25% discount). This employee's total 2001 RSU award is 124 RSUs.	$\$2,500 \div \$34.98$ $\underline{\$2,500 \div \$47.55}$ $\$5,000$	71 RSUs <u>53 RSUs</u> 124 RSUs

\* Please note that if the value of your September RSUs equaled or exceeded your full-year stock award level, no additional RSUs were awarded in December.

**Note to Salaried Members of the Firm:** For employees hired in 2000 or 2001, please refer to page 4 for a discussion of how your total compensation was determined for purposes of calculating your September stock award.

**Note to Investment Representatives (IRs):** Your 2001 stock award was accrued as a portion of your monthly payout. Please refer to the section *IRs: Calculating Your 2001 Monthly Accrual* on page 10 for an illustration of how your monthly RSU accrual was determined.

## Investment Representatives (IRs): Stock Award Schedule

<i>Total Compensation Range</i>	<i>2001 IR Stock Award Schedule Portion of 2001 Compensation Paid Through Stock Award Program</i>	<i>2002 IR Stock Award Schedule* Portion of 2002 Compensation Paid Through Stock Award Program</i>
\$0 – \$99,999	2% of 2001 total compensation	2% of 2002 total compensation
\$100,000 – \$199,999	\$2,000 plus 6% of 2001 total compensation over \$100,000	\$2,000 plus 6% of 2002 total compensation over \$100,000
\$200,000 – \$299,999	\$8,000 plus 10% of 2001 total compensation over \$200,000	\$8,000 plus 10% of 2002 total compensation over \$200,000
\$300,000 – \$499,999	\$19,000 plus 15.10% of 2001 total compensation over \$300,000	\$30,000 plus 16.25% of 2002 total compensation over \$300,000
\$500,000 – \$749,999	\$49,208 plus 20% of 2001 total compensation over \$500,000	\$62,500 plus 20% of 2002 total compensation over \$500,000
\$750,000 – \$999,999	\$99,208 plus 25.83% of 2001 total compensation over \$750,000	\$112,500 plus 35% of 2002 total compensation over \$750,000
\$1,000,000 – \$1,499,999	\$163,792 plus 30.42% of 2001 total compensation over \$1,000,000	\$200,000 plus 35% of 2002 total compensation over \$1,000,000
\$1,500,000 – \$1,999,999	\$315,875 plus 35.83% of 2001 total compensation over \$1,500,000	\$375,000 plus 45% of 2002 total compensation over \$1,500,000

\* The portion of 2002 compensation accrued for the 2002 stock award will be calculated according to the schedule above.

## Investment Representatives (IRs): Calculating Your 2001 Monthly Accrual

As an example, we'll go through the monthly calculation for an IR whose 2001 total compensation was \$150,000.

Step	Instructions	Sample Calculation	Sample Result
Step 1	Take YTD Total Payout for first month and annualize (multiply by 12 and divide by production month number).	$\$18,000 \times 12 \div 1$	\$216,000.00
Step 2	Calculate RSU accrual from the 2001 award schedule on page 9.	\$216,000	\$9,600.00
Step 3	Multiply result by allocation %. Subtract previous month's YTD RSU accrual from result. This is the monthly RSU accrual.	$(\$9,600 \times 8.33\%) - \$0$	\$800.00
Step 4	Take YTD Total Payout for second month and annualize (multiply by 12 and divide by production month number).	$\$29,500 \times 12 \div 2$	\$177,000.00
Step 5	Calculate RSU accrual from the 2001 award schedule on page 9.	\$177,000	\$6,620.00
Step 6	Multiply result by allocation %. This is the YTD RSU accrual. Subtract previous month's YTD RSU accrual from result. This is the monthly RSU accrual.	$(\$6,620 \times 16.67\%) - \$800.00$	\$303.33
Step 7	Repeat for next month.		

### Example

#	Pay Month	Monthly Total Payout (\$)	YTD Total Payout (\$)	Annualized Total Payout (\$)	Annualized RSU Award (\$)	Allocation %	YTD RSU Accrual (\$)	Monthly RSU Accrual (\$)
1	January	18,000	18,000	216,000	9,600	8.33%	800.00	800.00
2	February	11,500	29,500	177,000	6,620	16.67%	1,103.33	303.33
3	March	10,000	39,500	158,000	5,480	25.00%	1,370.00	266.67
4	April	11,000	50,500	151,500	5,090	33.33%	1,696.67	326.67
5	May	12,000	62,500	150,000	5,000	41.67%	2,083.33	386.67
6	June	13,000	75,500	151,000	5,060	50.00%	2,530.00	446.67
7	July	12,000	87,500	150,000	5,000	58.33%	2,916.67	386.67
8	August	15,000	102,500	153,750	5,225	66.67%	3,483.33	566.67
9	September	10,000	112,500	150,000	5,000	75.00%	3,750.00	266.67
10	October	12,500	125,000	150,000	5,000	83.33%	4,166.67	416.67
11	November	10,000	135,000	147,273	4,836	91.67%	4,433.33	266.67
12	December	15,000	150,000	150,000	5,000	100.00%	5,000.00	566.67
<b>Total</b>								<b>5,000.00</b>

## Investment Representatives (IRs): Calculating Your Full-Year 2001 Stock Award

As an example, we'll go through the monthly calculation for an IR with payout of \$112,500 through September and \$150,000 for 2001.

Step	Instructions	Sample Calculation	Sample Result
Step 1	The portion of your award that was priced in September was based on your compensation paid from January through September.	Not applicable	\$112,500
Step 2	To determine the portion of the 2001 award priced in September, we used annualized RSU eligible payout on gross production for the months January through September. This is calculated by taking the total payout for the period of eligibility, multiplying this amount by 12, and dividing the result by the number of months of participation.	$[(\$112,500 \times 12) \div 9]$	\$150,000
Step 3	The result in step 2 is then applied to the award schedule on page 7 and multiplied by 50%. This amount represents the IR's September RSU award. Note that the September award could not exceed your actual accrual through September.	$[\$2,000 + (6\% \times \$50,000)] \times 50\%$	\$2,500
Step 4	The next step is to figure out how many RSUs were awarded in December. The year end award was based on actual payout, after all adjustments, for production months December 2000 through November 2001 (paid from January through December 2001) and the 2001 IR Stock Award Schedule* on page 9. According to the schedule, the full-year award for an IR with 2001 total payout of \$150,000 is \$2,000 plus 6% of 2001 total payout over \$100,000, or \$5,000. This amount, less the September RSU amount calculated in step 3, results in the December RSU amount.	$[\$2,000 + (6\% \times \$50,000)] - \$2,500$	\$2,500
Step 5	The next step is to figure out how many RSUs were awarded to this IR in 2001. To calculate the portion of RSUs awarded in September, divide the result from step 3 by \$34.98 (which represents the \$46.64 price of Lehman Brothers stock on September 20, 2001, less the Firm-provided 25% discount). To calculate the number of units received in December, divide the result from step 4 by \$47.55 (which represents the \$63.40 price of Lehman Brothers stock at year end, less the Firm-provided 25% discount). This employee's total 2001 RSU award is 124 RSUs.	$\$2,500 \div \$34.98$ $\underline{\$2,500 \div \$47.55}$ $\$5,000$	71 RSUs <u>53 RSUs</u> 124 RSUs

\* Note that the 2001 stock award schedule is a combination of the 2000 stock award grid in effect through the October 2001 production month (paid in November 2001) and the 2002 IR stock accrual schedule on page 9 that will be used for the monthly accrual in 2002.

*Your RSUs appreciate on  
a pre-tax basis for the  
five-year restriction period.*

### **Tax Treatment of Restricted Stock Units**

Under current tax regulations, you will not be taxed on the value of your RSUs until they convert to common stock. As a result, your RSUs appreciate on a pre-tax basis for the five-year restriction period. (For members of the Firm whose employment status changes, special provisions apply. Please see the following section.)

Provided below is a summary of the U.S. taxes that are ultimately due under current tax law:

- ◆ At the time the RSUs are awarded, there is no taxable event.
- ◆ After the restriction period for 2001 RSUs ends, on November 30, 2006, your RSUs, including any additional RSUs that you receive through dividend reinvestment, convert to common stock. Ordinary income equal to the November 30, 2006 market value of your shares will be reported to the IRS, and you will be subject to tax withholding on this amount. Since the receipt of these shares is treated as compensation paid to you, ordinary income tax rates apply, rather than the special provisions dealing with capital gains.
- ◆ On November 30, 2006, when your 2001 RSUs convert to common stock, your cost basis for tax purposes will equal the market value of your shares on that day. Any subsequent increases in value will be taxed as capital gains when the stock is sold. If the stock price is lower when you sell your shares than it was when the RSUs converted, you will have a capital loss to declare.

### **If Your Employment Ends**

If your employment with the Firm ends before November 30, 2006, the disposition of your 2001 RSUs will be determined by when you leave, why you leave, and your conduct with respect to Lehman Brothers after you leave. Depending on these factors, you may forfeit your rights to some or all of the 2001 RSUs.

#### *When You Leave*

##### **Salaried Members of the Firm:**

If you leave after January 31, 2002, but before November 30, 2006, you may be entitled to your 2001 RSUs depending on why you leave the Firm and your conduct with respect to the Firm after you leave, as described below.

##### **Investment Representatives:**

If you leave before November 30, 2001, your 2001 RSU award will be based on the amount of production compensation accrued for the stock award through your termination date. Your entitlement to the 2001 RSUs will depend on why you leave the Firm and your conduct with respect to the Firm after you leave, as described below.



## *Why You Leave*

### **Voluntary Termination**

#### *Resignation to a Non-Competitor:*

- ◆ If you leave voluntarily and you do not go to work for a competitor of Lehman Brothers, you will be entitled to receive the entire principal portion (75 percent) of your 2001 RSUs and a pro-rata portion of the discount (25 percent of the award). The portion of the discount you receive will be prorated in 20 percent increments for every full year of service with the Firm after November 30, 2001. So, if you leave the Firm prior to November 30, 2002, you will not be entitled to receive any of the RSUs related to the discount portion. However, if termination occurs after a "Full Career" with the Firm, you will be entitled to receive the entire discount portion of your RSU award. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. Shares of Lehman Brothers common stock will be issued to you, without restrictions, at the earlier of a) November 30, 2006 (five years after the award date) or b) the end of the fiscal quarter one year following your termination date, provided you do not engage in Competitive Activity or Detrimental Activity through that date.

#### *Resignation to a Competitor:*

- ◆ If you leave voluntarily and you go to work for a competitor of Lehman Brothers prior to November 30, 2003, you will not be entitled to the principal portion (75 percent) of your award. If you leave after November 30, 2003, you will be entitled to receive the entire principal portion of your RSU award. In either case, you will not be entitled to receive any of the RSUs related to the discount portion (25 percent) of your award. Shares of Lehman Brothers common stock will be issued to you, without restrictions, at the earlier of a) November 30, 2006 (five years after the award date) or b) the end of the fiscal quarter one year following your termination date, provided that you do not engage in Detrimental Activity through that date.

### **Involuntary Termination**

#### *Involuntary Termination With Cause:*

- ◆ If you are terminated involuntarily with cause, your entire 2001 RSU award will be forfeited immediately upon termination.

*Involuntary Termination Without Cause:*

- ◆ If you are terminated involuntarily but without cause, you will be entitled to receive the entire principal portion (75 percent) of your 2001 RSUs and a pro-rata portion of the discount (25 percent of the award). The portion of the discount you receive will be prorated in 20 percent increments for every full year of service with the Firm after November 30, 2001. So, if your termination occurs prior to November 30, 2002, you will not be entitled to receive any of the RSUs related to the discount portion. However, if termination occurs after a "Full Career" with the Firm, you will be entitled to receive the entire discount portion of your RSU award. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. Shares of Lehman Brothers common stock will be issued to you, without restrictions, at the earlier of a) November 30, 2006 (five years after the award date) or b) the end of the fiscal quarter one year following your termination date, provided you do not engage in Detrimental Activity through that date.

**Death, Disability, Retirement**

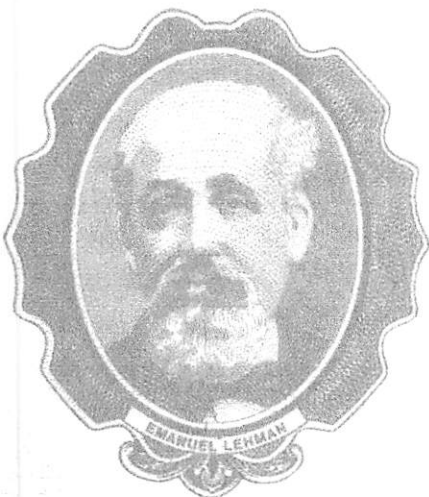
- ◆ If you die, retire, or become disabled (as defined in the award agreement), all unvested RSUs will vest immediately and convert to Lehman Brothers common stock. Shares of Lehman Brothers common stock will be issued to you or your estate, without restrictions, following your termination date.
- ◆ At the time the shares are issued to you or your estate, the market value of the shares on the payment date will be reported as ordinary income and you or your estate will be subject to tax withholding on this amount. Please consult your personal tax advisor concerning the application of federal, state and local tax rules.

*Your Conduct With Respect to Lehman Brothers After You Leave*

You will forfeit your unvested 2001 RSUs (and related dividend reinvestment) if you engage in Competitive Activity or Detrimental Activity.

**Competitive Activity**

Competitive Activity means involvement (whether as an employee, proprietor, consultant or otherwise) with any person or entity engaged in any business activity which is materially competitive with any business carried on by Lehman Brothers Holdings Inc. or any of its subsidiaries or affiliates on the date of termination of a person's employment with the Firm, as determined in the sole discretion of the Chief Executive Officer or the Chief Administrative Officer of the Firm (or their respective designees). ***Please note that the determination of competitive activity is not based on the function that an individual performs in a company but rather the nature of the company's businesses.***



Most financial services companies, including but not limited to, all of the "bulge bracket" investment banks, many commercial banks and even small boutique-type firms are considered *competitors* of the Firm for purposes of the Stock Award Program. While the Firm values its client relationships with financial institutions, these relationships will not preclude companies being deemed competitors when any of their business activities may be considered competitive with the Firm. Please consult your Human Resources representative or the Compensation Department if you have questions about a particular company.

#### **Detrimental Activity**

Detrimental Activity means (i) using information received during a person's employment with Lehman Brothers Holdings Inc. or any subsidiary, their affiliates or clients, in breach of such person's undertakings to keep such information confidential; (ii) directly or indirectly persuading or attempting to persuade, by any means, any employee of Holdings or any subsidiary to terminate employment with Holdings or any subsidiary or to breach any of the terms of his or her employment with Holdings or any subsidiary; or (iii) any activity deemed to be detrimental to Holdings or any of its subsidiaries or affiliates, in each case as determined in the sole discretion of the Chief Executive Officer or the Chief Administrative Officer of the Firm (or their respective designees).

#### **Change in Control ("CIC") Provisions**

##### ***Hostile***

- ◆ All RSUs vest immediately.
- ◆ Shares of Lehman Brothers common stock will be issued immediately so that you may tender your shares with other shareholders.

##### ***Friendly***

- ◆ Upon the CIC, you will receive the undiscounted award price for your RSUs (\$46.64 x your number of September RSUs and \$63.40 x your number of December RSUs) in either cash or equity.
- ◆ The additional value of the RSUs in excess of the undiscounted RSU award price will be paid on the Payment Date, defined as the earlier of:
  - a) two years following the CIC or
  - b) November 30, 2006 (five years after the award date).
- ◆ The RSUs (or cash balance) will remain subject to the vesting and issuance restrictions (including the provisions related to Competitive Activity and Detrimental Activity) through the Payment Date.



### **Payment of RSUs Upon a Friendly Change in Control**

EXAMPLE: Let's use as an example a participant whose 2001 compensation was \$150,000. The amount of compensation paid in RSUs (for September and December 2001) was \$5,000 (for 124 RSUs at a market value of \$6,671). Assume there is a Change in Control and the market price for Lehman Brothers stock at that time is \$100 per share.

#### ***Undiscounted purchase price:***

- ◆ Upon a Friendly Change in Control, this participant receives a payment of shares (or cash) equivalent in value to the original award, \$6,671. Assuming a market price of \$100, this participant would receive 67 shares.

#### ***Premium over undiscounted price:***

- ◆ The additional value of the RSUs, in excess of the original award value, \$5,729 ((124 RSUs x \$100) - \$6,671), will be held on the participant's behalf in either cash or equity of the successor entity.
- ◆ The payment (in either cash or equity of the successor entity) will be subject to the same vesting and issuance restrictions as the RSU award.
- ◆ Assume the participant leaves within two years of the Change in Control:
  - The participant will be entitled to 75 percent of the additional value of the RSUs, in excess of the original award value ( $\$5,729 \times 75\% = \$4,297$ ), provided no Competitive Activity or Detrimental Activity for a period of one year after termination date (or the second anniversary of the Change in Control, if sooner).
  - The participant will also be entitled to a pro-rata portion of the remaining 25 percent of the additional value of the RSUs (in excess of the original award value) based on the number of years completed after the RSU award date (e.g., if termination occurs during 2004 (but before November 30, 2004), 2/5th of the remaining amount or \$573).
  - In total, the participant will receive \$4,870 (\$573 plus \$4,297) or 49 shares. In this example, the participant receives 85 percent of the additional value of the RSUs in excess of the original award value.
- ◆ Please note that this value may be converted to shares of the successor entity. In this instance, the above percentages will be applied to the converted shares.

## Other Information

In the event of any conflict between the plan documents (including, but not limited to, the restricted stock unit award agreement, the Employee Incentive Plan and the Employee Incentive Plan Prospectus) and the information in this brochure, the plan documents will govern.

Nothing in this brochure or the plan documents shall be construed to create or imply any contract of employment between you and Lehman Brothers.

All references to taxation in this brochure refer to U.S. federal taxes and current tax law. You should consult your local tax authorities or personal tax consultant for details on the impact of tax laws in effect at the time your RSUs become taxable.

If you have any questions about the Program in general, about your personal award statement or about your award agreement, call the Compensation Department at 201-524-4624 (4-4624), or for IRs, your PCS Human Resources contact at 212-526-2921 (5-2921).

